



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MONROE COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES**

July 21, 1999

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CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 1998 TAXES	3
NOTES TO FINANCIAL STATEMENT	4
COMMENTS AND RECOMMENDATIONS.....	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	13
APPENDIX A: SCHEDULE OF FORMER SHERIFF'S EXCESS OF LIABILITIES OVER ASSETS	17



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Sarah Jane Schaaf, Secretary, Revenue Cabinet

Honorable Russell Young, County Judge/Executive

Honorable Jerry Gee, Monroe County Sheriff

Honorable Beverly McClendon, Former Monroe County Sheriff

Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the Monroe County Sheriff's Settlement - 1998 Taxes as of July 21, 1999. This tax settlement is the responsibility of the Monroe County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Monroe County Sheriff's taxes charged, credited, and paid as of July 21, 1999, in conformity with the basis of accounting described in the preceding paragraph.

We commend Monroe County Sheriff Jerry Gee on the fine manner in which he maintained his financial statements and records. There were no material audit findings for Sheriff Jerry Gee.

Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Russell Young, County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Honorable Beverly McClendon, Former Monroe County Sheriff
Members of the Monroe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance for former Sheriff Beverly McClendon.

- Former Sheriff Beverly McClendon Should Eliminate \$191,348 Deficit In His Tax Account
- Former Sheriff Beverly McClendon Should Settle All Unpaid Obligations And Seek Refunds For All Overpayments

In accordance with Government Auditing Standards, we have also issued a report dated September 20, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 20, 1999

MONROE COUNTY
JERRY GEE, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

July 21, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 162,901	\$ 333,061	\$ 667,539	\$ 270,911
Tangible Personal Property	18,991	36,861	71,785	75,611
Intangible Personal Property				26,872
Fire Protection	1,737			
Franchise Corporation	28,478	56,022	109,953	
Additional Billings	9	19	38	15
Increased Through Erroneous Assessments	16	34	68	28
Penalties	1,408	2,851	5,702	2,386
Adjusted to Sheriff's Receipt	<u>(14)</u>	<u>31</u>	<u>40</u>	<u>53</u>
Gross Chargeable to Sheriff	<u>\$ 213,526</u>	<u>\$ 428,879</u>	<u>\$ 855,125</u>	<u>\$ 375,876</u>
<u>Credits</u>				
Discounts	\$ 2,695	\$ 5,425	\$ 10,843	\$ 5,734
Exonerations	1,594	3,251	6,515	2,688
Delinquents:				
Real Estate	2,412	4,906	9,831	3,990
Tangible Personal Property	99	191	372	305
Intangible Personal Property				41
Uncollected Franchise Corporation	<u>70</u>	<u>1,222</u>	<u>264</u>	
Total Credits	<u>\$ 6,870</u>	<u>\$ 14,995</u>	<u>\$ 27,825</u>	<u>\$ 12,758</u>
Net Tax Yield	\$ 206,656	\$ 413,884	\$ 827,300	\$ 363,118
Less: Commissions *	<u>9,070</u>	<u>17,224</u>	<u>28,956</u>	<u>15,720</u>
Net Taxes Due	\$ 197,586	\$ 396,660	\$ 798,344	\$ 347,398
Taxes Paid	197,564	396,615	798,259	347,360
Refunds (Prior Year)	<u>22</u>	<u>45</u>	<u>90</u>	<u>38</u>
Refund Due Sheriff as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (5)</u>	<u>\$ 0</u>

* Commissions:

10% on \$ 10,000
4.25% on \$ 827,299
4% on \$ 146,359
3.5% on \$ 827,300

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT

July 21, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The Sheriff met the requirements stated above, and as of July 21, 1999, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
July 21, 1999
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 12, 1999 through May 29, 1999.

Note 4. Interest Income

The Monroe County Sheriff earned \$3,946 as interest income on 1998 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Contingencies

- A. In April 1998, the Monroe County Attorney, on behalf of the Monroe County Fiscal Court and Monroe County Taxing Districts, filed a lawsuit against former Monroe County Sheriff Beverly McClendon and his bonding company, Ohio Farmers Insurance Company. This lawsuit seeks to recover the deficit of \$180,726 in the former Sheriff's tax account. On March 31, 1999, this lawsuit was amended to include the deficit of \$64,973 in the former Sheriff's fee account as of December 31, 1997. This lawsuit is currently pending in Monroe County Circuit Court.
- B. In August 1999, Robert McClendon, former Sheriff Beverly McClendon's bookkeeper, plead guilty to multiple felony charges of misappropriating property tax payments made to the Monroe County Sheriff's office while he was employed as a Deputy Sheriff. Sentencing is scheduled for November 10, 1999.

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COMMENTS AND RECOMENDATIONS

MONROE COUNTY
BEVERLY McCLENDON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

July 21, 1999

1) Former Sheriff Beverly McClendon Should Eliminate \$191,348 Deficit In His Tax Account

As of October 31, 1997, there was a \$191,348 deficit in the former Sheriff's official tax account. We recommend former Sheriff Beverly McClendon eliminate this deficit with a deposit of personal funds. This matter has been referred to the U.S. Attorney's Office and the Kentucky State Police for appropriate action.

2) Former Sheriff Beverly McClendon Should Settle All Unpaid Obligations And Seek Refunds For All Overpayments

The schedule of the "Former Sheriff's Excess of Liabilities Over Assets" (Appendix A) reflects that as of October 31, 1997, the former Sheriff had \$194,904 of receivables. The former Sheriff is due \$31,107 in refunds from the taxing districts; \$8,202 from overpayment of commissions to the 1992 fee account; \$207 from reimbursement of bank service charges from the former Sheriff's fee account; \$22 from overpayment of interest to the 1994 fee account; \$151,843 from tax receipts deposited to the former Sheriff's fee account; \$2,610 from taxpayers for additional franchise taxes; and \$913 for bank and deposit errors. These amounts reflect receivables to the former Sheriff's tax account and should be collected. In addition, as of October 31, 1997, the former Sheriff owed \$387,234 in unpaid obligations, including \$142,488 of fee account money that should be transferred from the former Sheriff's tax account to the former Sheriff's fee account. This money consists of interest, advertising fees, tax commissions, and miscellaneous refunds. We recommend that former Sheriff Beverly McClendon pay all outstanding obligations; collect the amounts to be refunded from taxing districts; refund his tax account for bank service charges, overpayments of 1992 tax commissions, 1994 interest, and tax receipts deposited to his fee account; and collect additional franchise taxes from taxpayers. When these recommendations are enacted and \$191,348 in personal funds is deposited to the former Sheriff's official tax account, funds will be available for all unpaid obligations.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Russell Young, County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Monroe County Sheriff's Settlement - 1998 Taxes as of July 21, 1999, and have issued our report thereon dated September 20, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Monroe County Sheriff's Settlement - 1998 Taxes as of July 21, 1999 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Monroe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Russell Young, County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 20, 1999

SCHEDULE OF FORMER SHERIFF'S
EXCESS OF LIABILITIES OVER ASSETS

October 31, 1997

Appendix A

MONROE COUNTY
BEVERLY MCCLENDON, FORMER SHERIFF
SCHEDULE OF FORMER SHERIFF'S EXCESS OF LIABILITIES OVER ASSETS

October 31, 1997

Assets

Cash in Bank (All Tax Accounts) \$ 987

Receivables:

1990 Refunds Due-

Library District \$ 68

Soil Conservation District 1,257

Fire Protection District 95

Monroe County Board of Education-

Refund of Overpayment of Commissions

Prior Year 17

Current Year 23,655

1992 Refunds Due-

Soil Conservation District 1,780

1993 Refunds Due-

Monroe County Fiscal Court 550

Monroe County Board of Education 2,033

Library District 132

Health District 219

Extension District 264

Ambulance District 389

1994 Refunds Due-

Monroe County Fiscal Court 233

Health District 102

Extension District 90

Ambulance District 173

1995 Refunds Due-

Fire Protection District 6

1996 Refunds Due-

Monroe County Fiscal Court

Overpayment of Advertising Costs 44

\$ 31,107

Fee Account-

Bank Service Charges for 1994 86

Bank Service Charges for 1995 103

Bank Service Charges for 1996 18

Overpayment of Interest 22

Franchises Deposited to Fee Account 150,831

Overpayment of Commissions to 1992 Fee Account 8,202

MONROE COUNTY
 BEVERLY MCCLENDON, FORMER SHERIFF
 SCHEDULE OF FORMER SHERIFF'S EXCESS OF LIABILITIES OVER ASSETS
 October 31, 1997
 (Continued)

Assets (Continued)

Receivables: (Continued)

Due From 1995 Tax to 1994 Tax for Deposit Error	\$	473
Due From 1996 Tax to 1995 Tax for Bank Error		440
Due From 1996 Fee to 1995 Tax for Deposit Error		1,012
Additional 1994 Franchise Tax Due		68
Additional 1995 Franchise Tax Due		1,248
Additional 1996 Franchise Tax Due		<u>1,294</u>

Total Receivables		<u>\$ 194,904</u>
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Total Assets		<u>\$ 195,891</u>
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Liabilities and Outstanding Checks

Outstanding Checks	\$	5
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Unpaid Obligations-

Other Taxing Districts-

State Treasurer-

1992 Taxes	\$	155
1993 Taxes		50
1994 Taxes		85
1995 Taxes		29
1996 Taxes		3,476

Monroe County-

Fiscal Court-

1992 Taxes		66
1995 Taxes		77
1996 Taxes		25,198
1992 Advertising Costs		195
1993 Advertising Costs		206

Health District-

1990 Taxes		193
1992 Taxes		31
1995 Taxes		35
1996 Taxes		10,659

MONROE COUNTY
 BEVERLY MCCLENDON, FORMER SHERIFF
 SCHEDULE OF FORMER SHERIFF'S EXCESS OF LIABILITIES OVER ASSETS
 October 31, 1997
 (Continued)

Liabilities and Outstanding Checks (Continued)

Unpaid Obligations: (Continued)

Other Taxing Districts- (Continued)

Monroe County- (Continued)

Library District-

1992 Taxes	\$ 16
1994 Taxes	5
1995 Taxes	21
1996 Taxes	6,649

Extension District-

1990 Taxes	235
1992 Taxes	1,817
1995 Taxes	33
1996 Taxes	11,484

Ambulance District-

1990 Taxes	336
1992 Taxes	48
1995 Taxes	14,343
1996 Taxes	18,593

Fire Protection District-

1992 Taxes	16
1993 Taxes	59
1994 Taxes	74
1996 Taxes	32

Soil Conservation District-

1993 Taxes	530
1994 Taxes	2,323
1995 Taxes	10
1996 Taxes	529

Board of Education-

1990 Taxes	1,336
1992 Taxes	313
1994 Taxes	2,917
1995 Taxes	306
1996 Taxes	99,289
1992 Interest	56
1993 Interest	48
1994 Interest	64
1995 Interest	232
1996 Interest	1,198

MONROE COUNTY
 BEVERLY MCCLENDON, FORMER SHERIFF
 SCHEDULE OF FORMER SHERIFF'S EXCESS OF LIABILITIES OVER ASSETS
 October 31, 1997
 (Continued)

Liabilities and Outstanding Checks (Continued)

Unpaid Obligations: (Continued)

Refunds Due Taxpayers-		
Overpayment of 1990 Franchise Bills	\$	1,315
Exonerated 1990 and 1991 Tax Bills		280
Overpayment of 1993 Tax Bill Prepared in Error		6,330
Exonerated 1994 Tax Bills		223
Exonerated 1995 Tax Bills		108
Exonerated 1996 Tax Bills		210
Amounts Due Sheriff's Fee Account-		
1990 Tax Commissions		105
1993 Tax Commissions		11,274
1994 Tax Commissions		60,201
1995 Tax Commissions		42,383
1996 Tax Commissions		20,214
1992 Advertising Fees		65
1993 Advertising Fees		68
1996 Advertising Fees		157
1992 Interest		1,676
1993 Interest		2,186
1995 Interest		1,034
1996 Interest		1,380
Refunds for 1991 and 1992 Taxes		370
1995 Fee Receipts Deposited to 1994 Tax Account		1,375
Amount Due to 1994 Tax Account From 1995 Tax for Deposit Error		473
Amount Due to 1995 Tax Account From 1996 Tax for Bank Error		440
Deposit Bank of Monroe County - Borrowed Money		<u>32,000</u>
Total Unpaid Obligations	\$	<u>387,234</u>
Total Liabilities and Outstanding Checks	\$	<u>387,239</u>
Total Fund Balance - (Deficit)	\$	<u>(191,348)</u>

